



Independent Stock Idea

May 20, 2010

rating: none
s&p 500: 1072

CNOOC Limited (CEO) Remove Buy on Valuation and Trend

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	12,800
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	151.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/20/10	<i>Adjusted Reserves/Production NTM</i>	6.8
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$mm)</i>	68,000	<i>PV/Ebitda</i>	5.2
<i>Debt (US\$mm)</i>	1,700	<i>Undeveloped Reserves (%)</i>	52
<i>Enterprise Value (EV) (US\$mm)</i>	69,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	44.32
<i>Present Value (PV) (US\$mm)</i>	66,700	<i>Present Value Proven Reserves(US\$/boe)</i>	25.04
<i>Net Present Value (US\$/share)</i>	145	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.17
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	14.88
<i>McDep Ratio - EV/PV</i>	1.05	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	5.13
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
The Peoples Republic of China holds 66% of the outstanding shares.			
For historical research on CEO since 2001 see http://www.mcdep.com/4ceo.htm			

Summary and Recommendation

We remove our buy rating on **CNOOC Limited (CEO)** as stock price has moved below its 200-day average on May 20 and the McDep Ratio is above 1.0. The oil price trend turned down on May 17 when futures prices for the next six years settled below the 40-week average. Yet, the latest settlement on May 20 at \$80 a barrel is above \$75 a barrel that we use in estimating Net Present Value (NPV) at \$145 a share (see table [Functional Cash Flow and Present Value](#)). A rising trend in cash flow is propelled by rising volume (see tables [Half-Year Financial Results](#) and [Quarterly Operations](#)). We respect changes in price trends. We also believe a global economic recovery is underway. Meanwhile, we have seen that fear can be fickle. Volatile markets help traders make money if they can play the exaggerated movements. The challenge for investors is to identify value at which commitments can be made on a profitable basis longer term. For now in the case of CEO, we wait for a time when the McDep Ratio is lower whether because of lower stock price that we cannot predict or because of higher volume or higher commodity price as those become evident.

Kurt H. Wulff, CFA



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CNOOC Limited					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	R/P	Ebitda	(US\$mm)	
Natural Gas	970	13.3	7.2	7,000	11%
Oil	11,830	5.4	5.0	59,600	89%
	12,800	6.8	5.2	66,600	100%
Debt (US\$mm)					1,700
Net Present Value (US\$mm)					64,900
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					145
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					145

CNOOC Limited									
Half-Year Financial Results									
	Year	H1	H2	Year	H1E	H2E	Year	H1E	Twelve Months E
	2008	6/30/09	12/31/09	2009	6/30/10	12/31/10	2010E	6/30/11	6/30/11
Revenue (mmRMB)									
Natural Gas (from Q table)	6,362	2,833	3,701	6,534	4,411	4,927	9,337	4,990	9,917
Oil (from Q table)	96,236	29,443	47,581	77,024	56,100	59,230	115,330	61,494	120,725
Other	(1,767)	247	406	653	406		406	-	-
Total	100,831	32,523	51,688	84,211	60,916	64,157	125,073	66,485	130,641
Expense	29,520	8,151	16,411	24,563	20,102	21,172	41,274	21,940	43,112
Ebitda	71,311	24,372	35,277	59,648	40,814	42,985	83,799	44,545	87,530
Exploration	3,410	977	2,902	3,879	2,902	2,902	5,804	2,902	5,804
Deprec., Deplet., & Amort.	10,058	6,539	8,345	14,884	8,345	8,345	16,690	8,345	16,690
Ebit	57,843	16,856	24,030	40,885	29,567	31,738	61,305	33,298	65,036
Interest	-	-	-	-	-	-	-	-	-
Ebt	57,843	16,856	24,030	40,885	29,567	31,738	61,305	33,298	65,036
Income Tax	13,505	4,325	7,011	11,336	8,870	9,521	18,392	9,989	19,511
Net Income	44,338	12,531	17,019	29,549	20,697	22,217	42,914	23,308	45,525
Shares (millions)	44,786	44,752	44,786	44,772	44,786	44,786	44,786	44,786	44,786
Per share (RMB)	0.99	0.28	0.38	0.66	0.46	0.50	0.96	0.52	1.02
Ebitda Margin	71%	75%	68%	71%	67%	67%	67%	67%	67%
Tax Rate	23%	26%	29%	28%	30%	30%	30%	30%	30%



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CNOOC Limited									
Quarterly Operations									
	Q2	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Twelve
	6/30/09	3/31/10	6/30/10	9/30/09	12/31/10	2010E	3/31/11	6/30/11	Months E
									6/30/11
Volume									
Natural gas (bcf)	56	72	73	76	79	299	77	78	310
Natural Gas (mmcf)	611	796	799	825	858	820	858	858	850
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	45	55	56	58	60	229	59	60	237
Oil (mbd)	496	611	611	631	657	628	657	657	650
Total gas & oil (mmboe)	54	67	68	71	74	279	72	73	289
Total gas & oil (mbd))	598	744	744	769	800	764	800	800	792
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	3.50	5.32	4.17	4.56	5.07	4.78	5.44	5.33	5.10
Company	3.91	4.43	4.52	4.61	4.70	4.57	4.70	4.70	4.68
Oil (\$/bbl)									
WTI Cushing	59.52	78.67	76.33	75.09	77.62	76.93	78.22	79.86	77.70
Company	56.63	75.37	73.13	71.94	74.36	73.69	74.94	76.51	74.45
Total gas & oil (\$/mcf)	8.50	11.11	10.82	10.67	11.02	10.90	11.10	11.31	11.03
Revenue (\$mm)									
Natural Gas	217	317	328	350	371	1,367	363	367	1,452
Oil	2,556	4,145	4,067	4,177	4,493	16,882	4,429	4,572	17,672
Total	2,773	4,463	4,395	4,527	4,864	18,249	4,792	4,940	19,123
RMB/\$	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83
Revenue (RMB)									
Natural Gas	1,485	2,167	2,244	2,390	2,536	9,337	2,481	2,509	9,917
Oil	17,456	28,319	27,781	28,538	30,692	115,330	30,258	31,236	120,725
Total	18,941	30,486	30,025	30,928	33,229	124,667	32,740	33,745	130,641

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